



Town of Reading Meeting Minutes

Board - Committee - Commission - Council:

RMLD Board of Commissioners

Date: 2019-12-2

Time: 06:30 PM

Building: Reading Municipal Light Building

Location: Winfred Spurr Audio Visual Room

Address: 230 Ash Street

Session: Open Session

Purpose: General Business

Version: Final

Attendees: **Members - Present:**

David Talbot, Chair; John Stempeck, Vice Chair; David Hennessy, Commissioner; Thomas O'Rourke, Commissioner; Philip B. Pacino, Commissioner

Members - Not Present:

Others Present:

RMLD Staff: Coleen O'Brien, General Manager; Hamid Jaffari, Director of Engineering and Operations; Wendy Markiewicz, Director of Business, Finance and Utility Technology; Tracy Schultz, Executive Assistant

Vivek Soni, Citizens' Advisory Board

Mark Dockser, Liaison, Financial Committee

John Tzimirangas, President, Energy New England

Minutes Respectfully Submitted By: David Hennessy, Secretary Pro Tem

Topics of Discussion:

Call Meeting to Order

Chair Talbot called the meeting to order and read RMLD's Code of Conduct. Chair Talbot announced that the meeting is being videotaped at the RMLD office at 230 Ash Street, for distribution to the community television stations in North Reading, Lynnfield, and Wilmington. Chair Talbot asked Mr. Hennessy to serve as Board Secretary.

Public Comment

There was no public comment.

Annual Town Payment Study Presentation

Chair Talbot introduced Mr. Tzimirangas, President of Energy New England (ENE) and explained that it is a co-op of municipal light plants, of which RMLD is a member/co-owner. Mr. Tzimirangas stated that ENE was asked by RMLD and the Commissioners to do a study on the Town payment methodology. The current methodology, the methodologies of other light plants (both in and outside of Massachusetts) were looked at. This is the third such study that ENE has done in the last three years. Mr. Tzimirangas highlighted the uniqueness of municipal light plants (MLP) and stated that ENE represents 25 out of the 41 MLPs in the Commonwealth. ENE looked at RMLD's current, past, future financials and the and history of the payment to Town back to 1997,

when the consumer price index (CPI) formula was implemented. ENE sent out a survey to Massachusetts MLPs: it was difficult to get a sizable response. 17 respondents were fairly open with information and ENE had information available about others. ENE also looked at APPA

Annual Town Payment Study Presentation

data, which represents MLPs on the national level. There are approximately 2,200 systems but their annual review is for a year back: 2017's numbers were available. Only 283 municipals responded to that survey: that's 12 percent. ENE looked at RMLD's financial obligations such as the pension, OPEB, and operating reserves. Chair Talbot mentioned that a Freedom of Information request could be sent to the MLPs that did not respond. Chair Talbot mentioned Peabody, whose payment is lower but who undertakes certain services for the town. Mr. Tzimirangas stated there is line value for those services when he was General Manager of Hingham. Chair Talbot mentioned that Braintree does IT for the Town. Mr. Tzimirangas stated that's not included in their million \$1.5 million payment.

Mr. Tzimirangas continued with his presentation, stating that kWh sales seem to be the preferred measure of the utility business. Out of the 17 respondents, ten used mils per kWh and four used net plant times tax rate. All the systems surveyed reported flat or declining sales. RMLD's current town payment is based on CPI. CPI is a measure of economic indicators, labor and business: it's not a measure of the utility business itself. Mr. Tzimirangas stated he didn't find any other utility using that formula. RMLD has two types of payments: a net plant payment that goes to all four towns which totaled about \$1.6 million in 2019, and the annual payment to the Town of Reading for \$2.149 million. At almost \$4 million in combined payments, that's by far the largest payment in Massachusetts. RMLD's kWh sales have been declining over the last four years. Energy efficiency and solar installs have been the biggest drivers of declining sales. Reading's solar has tripled from 2015 to 2018. Mr. Tzimirangas explained that ENE's study took a holistic approach and considered the pension, post-retirement medical, operating reserves, capital expenses, and rising transmission costs. There's a shift in power supply portfolios towards renewables and green energy, which costs more than standard power. ENE's recommendation for the Board to consider is to move away from the current formula. ENE's suggestion is to move to mils per kWh and consider a five-year transition period. The average is 2.5 mils per kWh. The current amount, if you take the payment to the Town of Reading and divide it by kWh sold, is 3.588. It's well above the average. RMLD could transition to 3 mils and still be comfortable. Mr. Tzimirangas stated while transitioning, RMLD could establish a floor and tell the Town it would get no less than a certain amount. Mr. Tzimirangas discussed RMLD's projected sales and stated that when Ms. O'Brien did a study about a year-and-a-half ago, she showed sales declining about half a percent a year. The reason ENE's study shows flat sales because of the advent of electric vehicles and electric vehicle chargers. Electrification might add sales. Additionally, there are some large apartment complexes being built and the economy is good right now. Mr. Tzimirangas then discussed the potential proposal of using the 3 mils formula. Mr. Soni asked about the current 3.588 mils number. He was getting 3.63 when he did the math. Mr. Tzimirangas said he would review the numbers. Mr. Tzimirangas stated that part of the payments to the four towns is based on net plant: as net plant increases, so will that portion. That portion is not reflected in the presentation. The Board expressed their wish for a projected total of the payments. Ms. O'Brien stated that she is hopeful that sales will increase. Mr. Stempeck added that the previous payment model is not sustainable. Ms. O'Brien stated that many utilities use 2.5 mils because it seems to tolerate the ups and downs of the utility business. Mr. Tzimirangas stated that some municipals don't pay anything because payment is voluntary. Some are also governed very differently and are governed by the Town Manager and are not considered an entity separate from the Town. Mr. Tzimirangas explained that if RMLD were to keep its payment to the Town the same and keep its rate of return at eight percent, it would need to raise rates to fund capital improvements and other obligations (such as pensions and OPEB). Mr. Tzimirangas expressed concern that the current payments don't leave a lot left for other obligations.

Mr. Dockser stated that the OPEB and pension are scheduled to be fully funded in the not-too distant future. Mr. Tzimirangas replied that OPEB has no end date. Mr. Dockser stated that municipalities such as Shrewsbury and Hudson don't seem as formulaic and asked for an explanation of why their payments are dramatically higher. Mr. Tzimirangas replied that

Hudson's payment is negotiated. He is unsure how Shrewsbury's payment amount is determined. Mr. Tzimirangas added that Hudson is 90 percent nuclear; their rates are very stable. Mr. Stempeck expressed the need to ensure that the payment doesn't become an indirect tax. Mr.

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Dockser asked what the order of magnitude is for the net plant change and stated that the number is shocking. Mr. Stempeck replied that historically maintenance was lacking on RMLD's system for many years. RMLD needs to be operated as a business and can't just keep paying out large amounts of money to the Town. RMLD needs to ensure the system stays viable. Mr. O'Rourke mentioned that RMLD services multiple towns. Mr. Tzimirangas confirmed that there are very few municipal light plants that serve more than one town and for the ones that do serve multiple towns, the other municipalities only receive service; they do not receive any payment.

Establish process and timeline for determining Town Payment formula

Chair Talbot asked Ms. O'Brien to prepare a presentation showing the total payment amounts for the different scenarios. The Board is responsible for making the decision. The Board would consider the scenarios and then possibly vote on a recommendation. Then that would go to the CAB. Input can be provided by concerned parties over a one to two-month period. Mr. Stempeck suggested a joint session with the CAB. Chair Talbot stated he wants the Board to make a recommendation and then have the CAB discuss it. Chair Talbot stated that after the recommendation is made, input can be solicited. It may not be the final method that is implemented but it will be a starting point for discussion. Ms. O'Brien clarified that the chart will combine the above and below the line payments and will show the full effect with the increase in the capital outlay and if sales go up, down, or remain flat. Chair Talbot affirmed. Mr. Dockser asked when the Select Board would be involved. Chair Talbot stated that this has been being discussed for three years, The Board of Commissioners will put something on table. The Board then needs to hear from the CAB and representatives of the four towns.

Mr. Dockser and Mr. Tzimirangas exited the meeting.

Mr. Pacino added that the CPI payment formula is not a part of the Twenty-Year Agreement.

Review of the General Manager

a. Discussion of CY 2020 Goals and Objectives

Chair Talbot stated this item is to discuss potential Board contributions to determining goals for the General Manager. Mr. Stempeck stated that this will be discussed at a future meeting. Chair Talbot explained that it's in the Board's mission statement to come up with goals. Mr. Stempeck suggested doing Ms. O'Brien's January evaluation first. Mr. Pacino stated that the Board should determine the new GM evaluation process before focusing on goals. Chair Talbot asked that each Board member think of three goals and send their suggestions to him for discussion at the next meeting.

b. Revision to GM Performance Evaluation Methodology

Vice Chair Stempeck asked Mr. Hennessy for some examples of the proposed evaluation methodology. Ms. O'Brien stated that when she came to RMLD there was not a strategic plan or a budget process. Ms. O'Brien stated that everything she has designed encompass what the Commissioners are now talking about. When the department heads make their monthly presentations to the Board, they are reporting on what Ms. O'Brien is managing for that month. There's already an ongoing process of evaluation that happens every month. Mr. Hennessy stated that is the way the Board evaluates RMLD as a whole, but what he is proposing is instead of doing an annual General Manager review, the Board will do a quarterly check-in. Chair Talbot mentioned externalities such as the RMLD campus and legislation that go beyond long-term plans. Chair Stempeck stated that there will be three or four strategic items that will be addressed on a quarterly basis. Mr. O'Rourke added that the goal setting will be a collaborative process.

Review policy on handling of commissioner questions on A/P and Payroll

Chair Talbot asked if the Commissioners want to keep reviewing the warrants. Mr. Stempeck stated in the past there were concerns about staff competency; that's no longer the case. Mr.

Pacino stated three commissioners used to be required to sign AP. It's a part of the internal controls. Ms. O'Brien stated that it serves the purpose of helping the Board to learn the business. Vice Chair Stempeck suggested tabling the issue. Chair Talbot stated if the practice is to **Review policy on handling of commissioner questions on A/P and Payroll** continue language should be added to the Commissioners' job description and the full questions and answers should be included Board Book.

Discussion of RMLD overtime

Chair Talbot explained that there have been some questions from Commissioners regarding the large amount of overtime that RMLD has been paying. Ms. O'Brien stated that overtime is pursuant to the collective bargaining agreements that are in place and the unions are responsible for keeping overtime lists. These lists control how scheduled or unscheduled (storm/outage) overtime is allocated to employees. There appears to be a misconnection of the roles and responsibilities regarding the determination of eligibility and the management of overtime. Overtime needs to be provided and used on a transparent basis. Management has the right to ensure that the process and procedure for determining when overtime is needed, and the distribution of overtime, is fair. The RMLD is going to improve its payroll software system. Reducing pay codes and implementing procedures and policies to control overtime is critical. Ms. O'Brien stated that subject to the Board's agreement, she will seek outside independent support to assist in auditing and reconciling overtime payouts with union contract obligations. The outside consultant will be tasked with analyzing whether any overtime has been given to, or taken by, any RMLD employee that is not in accordance with union contracts. Recommendations will be sought regarding consolidating pay codes, reducing software costs, and creating transparency. Ms. O'Brien stated that she would report back to the Board with the audit's findings. It was determined that the Board did not need to vote. The Board members expressed their approval.

Adjournment

At 8:19 p.m., Mr. Hennessy made a motion, seconded by Mr. Stempeck, that the Board go into Executive Session to discuss confidential, competitively-sensitive or proprietary information in relation to making, selling, or distributing electric power and energy and consider complaints brought against a public officer, employee, staff member or individual and return to Regular Session for the sole purpose of adjournment.

Roll call vote: Mr. Pacino: Aye; Mr. Hennessy: Aye, Mr. O'Rourke: Aye; Vice Chair Stempeck: Aye; Chair Talbot: Aye.

Motion Carried 5:0:0

At 9:15 p.m. the Commission returned to regular session for the sole purpose of adjournment. Upon taking no further action, a motion was made by Mr. Pacino and seconded by Mr. Stempeck that the Commission adjourn the regular session.

Motion Carried 5:0:0

A true copy of the RMLD Board of Commissioners minutes
as approved by a majority of the Commission.

David Hennessy, Secretary Pro Tem
RMLD Board of Commissioners